

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name City of Iron Mountain	County Dickinson
Audit Date 6/30/05	Opinion Date 9/8/05	Date Accountant Report Submitted to State: 11/3/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

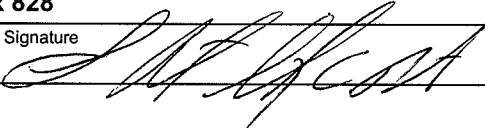
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC			
Street Address Po Box 828		City Iron Mountain	State MI
Accountant Signature 		ZIP 49801	Date 11-3-05

CITY OF IRON MOUNTAIN
REPORT ON FINANCIAL STATEMENTS
(with additional information)
For the Year Ended June 30, 2005

CITY OF IRON MOUNTAIN

TABLE OF CONTENTS

(Continued)

Page

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	62
---	----

ANDERSON, TACKMAN
& COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS





ANDERSON, TACKMAN & COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

A Regional Firm with Offices in Michigan and Wisconsin

Principals - Iron Mountain:
L. Robert Schaut, CPA
David J. Johnson, CPA
Shane M. Ellison, CPA

Member of:
Private Companies Practice Section
American Institute of Certified
Public Accountants

INDEPENDENT AUDITORS' REPORT

Members of the City Council
City of Iron Mountain
Iron Mountain, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Iron Mountain ("City"), Michigan, of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely component units, each major fund, and the aggregate remaining fund information of the City of Iron Mountain, Michigan, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 8, 2005, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the required supplemental information identified in the table of contents are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



ANDERSON, TACKMAN & COMPANY, PLC
Certified Public Accountants

Iron Mountain, Michigan
September 8, 2005

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the City of Iron Mountain's financial performance provides an overview of the City's financial activities for the year ended June 30, 2005. Please read it in conjunction with the City's financial statements.

FINANCIAL HIGHLIGHTS

- The City's total net assets increased \$1,770,359 or 5.8%, for the year ended June 30, 2005. The net of our governmental activities increased \$1,304,913 or 5.3% while the net assets of our business type activities (Water Utility and Sewer Funds) increased \$465,446 or 8.0%.
- During the year ended June 30, 2005 the City's governmental revenues exceeded expenditures by \$1,304,913. This compares to an excess of expenditures over revenues of \$471,155 for the year ended June 30, 2004. The change of \$1,776,068 was substantially a result of increased earnings on investments of \$103,310, reduced fund transfers of \$567,866, and reduced capital expenditures of approximately \$1,080,000.
- During the year ended June 30, 2005 the City's business-type activities revenues exceeded expenses by \$465,446. This compares to an excess of revenues over expenses of \$1,151,326 for the year ended June 30, 2004. The decrease of \$685,880 was primarily a result of the following:

Increase in charges to customers for water and sewer services	\$ 714,545
Increase in net transfers out to the Water Capital Improvement Fund	(146,226)
Reduction in contributions in aid of construction	<u>(1,095,914)</u>
Total	<u>\$ (685,880)</u>

- The total cost of all of the City's programs was \$7,397,809 for the year ended June 30, 2005 and \$8,355,451 for the year ended June 30, 2004, for a decrease of \$957,642 or 11.5%. The decrease was substantially related to public works and capital expenditures.
- The general fund reported an excess of revenues over expenditures for the year ended June 30, 2005 of \$452,296, \$172,556 improved over the budgeted excess of \$279,740. The excess of \$452,296 was 10.5% of general fund revenues of \$4,288,997.

USING THIS REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. For governmental activities, these statements report how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statement provides financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside the government.

Reporting the City as a whole

One of the most important questions asked about the City's finances is "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the City's *net assets* and changes in them. You can think of the City's net assets – the difference between assets and liabilities – as one way to measure the City's financial health, or *financial position*. Over time, *increases or decreases* in the City's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the City's property tax base and the condition of the City's roads, to assess the *overall financial health* of the City.

In the Statement of Net Assets and the Statement of Activities, we divide the City into two kinds of activities:

- Government activities – Most of the City's basic services are reported here including public safety, public works, parks and recreation and general administration. Property taxes, franchise fees, state shared revenues, and state and federal grants fund most of these activities.
- Business-type activities – The City charges a fee to customers to help it cover all or most of the costs of certain services it provides. The City's Water and Sewer Departments are reported here.

Reporting the City's Most Significant Funds

The fund financial statements provide detailed information on the most significant funds – not the City as a whole. Some funds are required to be established by State law or by bond covenants. However, the City Council establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal requirements for certain taxes, grants, and other money. The City's two kinds of funds – *governmental* and *proprietary* – use different accounting methods.

- *Government funds* – Most of the City's services are reported in governmental funds which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other financial assets that can be readily converted into cash. The governmental fund statements provide a detailed *short-term view* of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and Statement of Activities) and governmental *funds* in a reconciliation which follows the fund financial statements.
- *Proprietary funds* – When the City charges customers for the services it provides – whether to outside customers or to other units of the City – these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's

- enterprise fund (a component of proprietary funds) is the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds. We use internal service funds (the other component of proprietary funds) to report activities that provide supplies and services for the City's other programs and activities – such as the City's Equipment Fund.

The City as a Trustee

The City is the trustee, or *fiduciary*, of tax receipts that are collected for other agencies and held for periodic payment to those agencies. The City's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets. We exclude these funds from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The City as a Whole

The City's combined net assets at June 30, 2005 increased \$1,770,359 from June 30, 2004 as shown in Table 1.

Table 1
Net Assets

	Governmental Activities		Business-Type Activities		Totals	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Current and other assets	\$ 6,596,748	\$ 5,366,865	\$ 2,497,295	\$ 680,418	\$ 9,094,043	\$ 6,047,283
Capital assets (net)	<u>23,526,148</u>	<u>24,112,938</u>	<u>8,964,597</u>	<u>5,271,648</u>	<u>32,490,745</u>	<u>29,384,586</u>
Total assets	<u>30,122,896</u>	<u>29,479,803</u>	<u>11,461,892</u>	<u>5,952,066</u>	<u>41,584,788</u>	<u>35,431,869</u>
Long-term debt outstanding	(4,016,391)	(3,906,180)	(4,650,000)	-	(8,666,391)	(3,906,180)
Other liabilities	<u>(322,755)</u>	<u>(1,094,786)</u>	<u>(541,054)</u>	<u>(146,674)</u>	<u>(863,809)</u>	<u>(1,241,460)</u>
Total liabilities	<u>(4,339,146)</u>	<u>(5,000,966)</u>	<u>(5,191,054)</u>	<u>(146,674)</u>	<u>(9,530,200)</u>	<u>(5,147,640)</u>
Net Assets:						
Invested in capital assets, net of related debt	19,523,414	19,397,197	4,314,597	5,271,648	23,838,011	24,668,845
Restricted for debt service	1,599,261	1,500,913	-	-	1,599,261	1,500,913
Unrestricted	<u>4,661,075</u>	<u>3,580,727</u>	<u>1,956,241</u>	<u>533,744</u>	<u>6,617,316</u>	<u>4,114,471</u>
Total net assets	<u>\$ 25,783,750</u>	<u>\$ 24,478,837</u>	<u>\$ 6,270,838</u>	<u>\$ 5,805,392</u>	<u>\$ 32,054,588</u>	<u>\$ 30,284,229</u>

Net assets of the City's governmental activities stood at \$25,783,750. Unrestricted net assets – the part of net assets that could be used to finance day-to-day activities without constraints established by debt covenants, enabling legislation, or other legal requirements stood at \$4,661,075.

Net assets of the business-type activities stood at \$6,270,838. Unrestricted net business assets were \$1,956,241. In general, the business-type activities unrestricted net assets should be used to finance operations of our Water and Sewer Funds.

Table 2 outlines changes in the City's net assets.

Table 2
Changes in Net Assets

	Governmental Activites		Business-Type Activites		Totals	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Program revenues:						
Charges for services	\$ 415,945	\$ 580,118	\$ 1,461,115	\$ 742,868	\$ 1,877,060	\$ 1,322,986
Operating grants	10,342	2,877	-	-	10,342	2,877
General revenues:						
Property taxes	5,080,850	4,939,028	-	-	5,080,850	4,939,028
State revenue sharing	1,766,680	1,746,685	-	-	1,766,680	1,746,685
Unrestricted grants	39,118	37,706	-	-	39,118	37,706
Unrestricted investment earnings	170,591	67,281	35,667	7,049	206,258	74,330
Miscellaneous	<u>106,534</u>	<u>151,329</u>	<u>291</u>	<u>-</u>	<u>106,825</u>	<u>151,329</u>
Total revenues	<u>7,590,060</u>	<u>7,525,024</u>	<u>1,497,073</u>	<u>749,917</u>	<u>9,087,133</u>	<u>8,274,941</u>
Program Expenses:						
General government	752,813	816,933	-	-	752,813	816,933
Public safety	2,178,036	2,155,320	-	-	2,178,036	2,155,320
Parks and recreation	132,005	95,894	-	-	132,005	95,894
Cemetery	242,328	249,464	-	-	242,328	249,464
General public works	2,943,993	4,035,119	-	-	2,943,993	4,035,119
Interest on long-term debt	220,726	260,348	-	-	220,726	260,348
Water	-	-	815,577	742,373	815,577	742,373
Sewer	<u>-</u>	<u>-</u>	<u>112,331</u>	<u>-</u>	<u>112,331</u>	<u>-</u>
Total expenses	<u>6,469,901</u>	<u>7,613,078</u>	<u>927,908</u>	<u>742,373</u>	<u>7,397,809</u>	<u>8,355,451</u>
Excess before transfers and contributions in aid of construction	1,120,159	(88,054)	569,165	7,544	1,689,324	(80,510)
Contributions in aid of construction	-	-	172,611	1,268,509	172,611	1,268,509
Transfers	<u>184,754</u>	<u>(383,101)</u>	<u>(276,330)</u>	<u>(124,728)</u>	<u>(91,576)</u>	<u>(507,829)</u>
Increase in net assets	1,304,913	(471,155)	465,446	1,151,325	1,770,359	680,170
Net assets – beginning	<u>24,478,837</u>	<u>24,949,992</u>	<u>5,805,392</u>	<u>4,654,067</u>	<u>30,284,229</u>	<u>29,604,059</u>
Net assets – ending	<u>\$ 25,783,750</u>	<u>\$ 24,478,837</u>	<u>\$ 6,270,838</u>	<u>\$ 5,805,392</u>	<u>\$ 32,054,588</u>	<u>\$ 30,284,229</u>

Governmental Activities

Table 3 presents the cost of each of the City's five largest activities – Public Safety, Cemetery, Parks and Recreation, General Public Works, and General Government – as well as each program's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that each function placed on the taxpayers.

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Public safety	\$ 2,178,036	\$ 2,155,320	\$ 2,175,674	\$ 2,152,912
Cemetery	242,328	249,464	161,526	176,332
Parks and recreations	132,005	95,894	132,005	95,894
General public works	2,943,993	4,035,119	2,765,917	3,635,983
General government	<u>752,813</u>	<u>816,933</u>	<u>587,766</u>	<u>708,614</u>
Totals	<u>\$ 6,249,175</u>	<u>\$ 7,352,730</u>	<u>\$ 5,822,888</u>	<u>\$ 6,769,735</u>

Business-type Activities

Revenues for the City's business-type activity totaled \$1,461,115 for fiscal 2005 and \$742,868 for fiscal 2004. The increase is due to the substantial increases in rates charged to customers.

THE CITY'S FUNDS

At June 30, 2005 the City's governmental funds reported a combined fund balance of \$6,026,661, an increase of \$1,307,178 from \$4,719,483 at June 30, 2004.

General Fund Budgetary Highlights

Over the course of the year, the City Council revised the City general fund budget two times. The purpose of these revisions is to recognize major changes in revenue or expenses. Major revisions included:

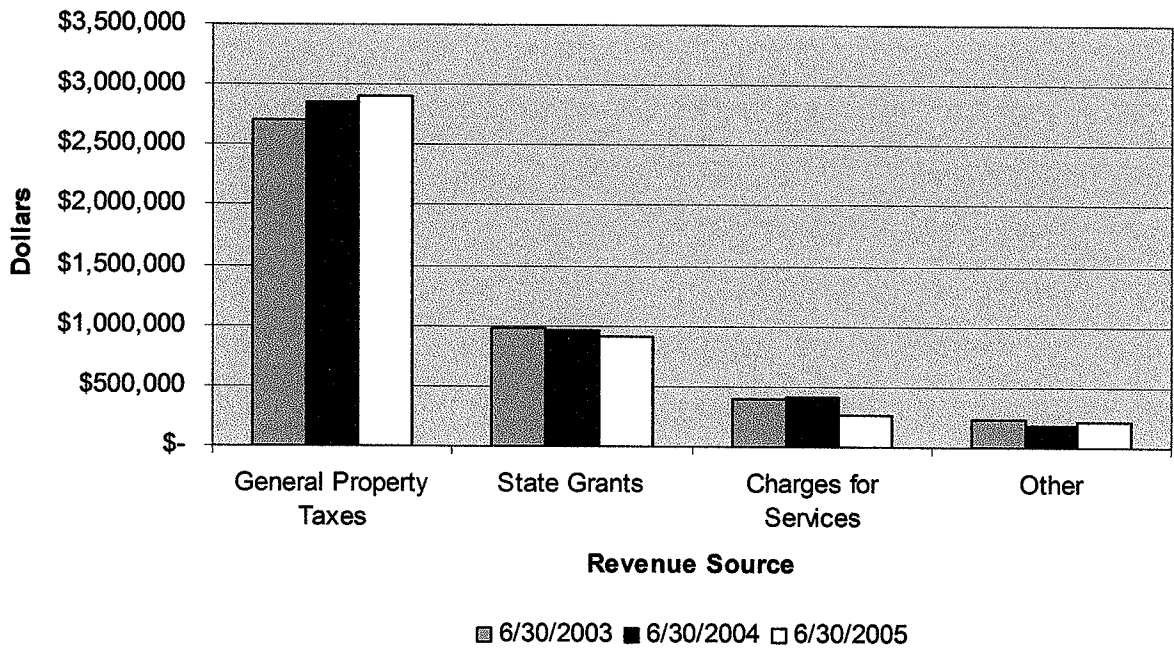
- | | | |
|----|--|------------|
| 1) | Increase general government revenues | \$ 217,529 |
| 2) | Increase general government expenditures | \$ 446,766 |

Actual charges to expenditures were \$218,914 less than the final budget and revenues were \$51,793 more than the final budget. The net variation to budget was a gain of \$172,556.

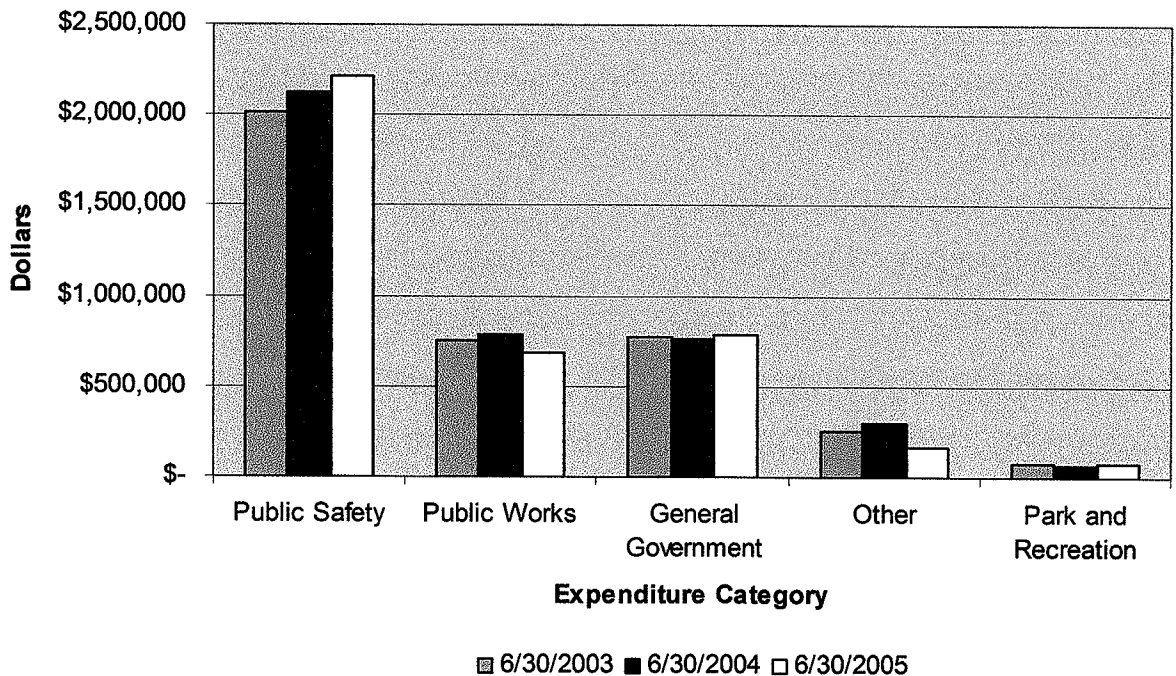
GENERAL FUND REVENUES AND EXPENDITURES

The City's General Fund revenues and expenditures for the years ended June 31, 2003, 2004 and 2005 are summarized in the following bar graphs:

General Fund Revenues



General Fund Expenditures



GENERAL FUND REVENUES

The graph vividly shows the City's heavy reliance on general property taxes to fund general governmental operations. The other revenue sources of the City have remained flat or declined. This is a situation that needs to be altered. The City is working on developing more user fees and will continue to be aggressive in pursuing and securing grant funds to assist in funding general governmental operations, capital improvements and new projects. The heavy reliance on the general property tax is indicative of the fact that the millage is near the Charter limit. The City's diversification of revenue sources is as important as one's diversification of investments. Diversification will allow the City to weather the vagaries of the real estate market, future property value appreciation/depreciation and a cessation of any new development. By finding other revenue sources, general property taxes can either be reduced, or at least stabilized. A significant reliance on general property taxes can be a detriment to future development. The high millage (necessary to sustain the financial needs of the City) will have the potential to detract developers of commercial and industrial facilities from building in the City. In the final analysis, this pattern has to be reversed for the overall fiscal health of the City. I can assure the readers of this document that the City is: 1.) committed to deriving revenues from multiple sources, 2.) committed to reducing this over-reliance on general property taxes, 3.) committed to aggressively pursue grants to fund programs, and 4.) committed to development diversification. All this will make the City well balanced and financially secure.

GENERAL FUND EXPENDITURES

This graph shows that public safety expenditures have increased almost equally to that of the general property tax. Other governmental expenditures have remained flat or slightly declined. This is a situation that, like the revenue side of the equation, must be changed. The City cannot continue to expend funds at this rate for public safety while leaving all other governmental programs and services to flounder. The City must address the funding of public safety services in a new light. Actions need to be implemented to reduce public safety expenditures by providing that essential service in a new way. The City has an obligation to investigate alternate methods of providing all services, not just public safety services. Other services, i.e. other governmental operations, are just as important as public safety. The City needs to expend funds on roads, recreational facilities, capital equipment, improvements to City facilities, etc. All these areas of expenditure have been slighted due to the heavy expenditure on public safety. An example of how the City is focusing on this subject is the development of a study to examine how public safety services can be provided on a regional basis. By joining forces with our municipal neighbors, public safety services can be provided more efficiently at a lower cost. The savings can be directed to other governmental programs and services to improve the overall quality of life in the community. In the same vein as the revenue side of the equation, the City is committed to a balanced ledger for a financially secure future.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2005 the City had \$52,308,921 invested in a variety of capital assets including equipment, buildings, parks, roads, and water systems as follows:

Capital Assets at Year-End

	Governmental Activities		Business-Type Activities		Totals	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Land	\$ 2,822,831	\$ 2,794,346	\$ 43,236	\$ 43,236	\$ 2,866,067	\$ 2,837,582
Land improvements	522,038	409,508	-	-	522,038	409,508
Buildings	4,274,161	4,274,161	-	-	4,274,161	4,274,161
Equipment	1,394,008	1,329,056	180,346	177,796	1,574,354	1,506,852
Vehicles	2,250,191	2,315,121	-	-	2,250,191	2,315,121
Infrastructure	<u>30,257,263</u>	<u>30,135,080</u>	<u>10,564,847</u>	<u>6,754,372</u>	<u>40,822,110</u>	<u>36,889,452</u>
Total cost	41,520,492	41,257,272	10,788,429	6,975,404	52,308,921	48,232,676
Less: accumulated depreciation	<u>(17,994,344)</u>	<u>(17,144,334)</u>	<u>(1,823,832)</u>	<u>(1,703,756)</u>	<u>(19,818,176)</u>	<u>(18,848,090)</u>
NET CAPITAL ASSETS	<u>\$ 23,526,148</u>	<u>\$ 24,112,938</u>	<u>\$ 8,964,597</u>	<u>\$ 5,271,648</u>	<u>\$ 32,490,745</u>	<u>\$ 29,384,586</u>

Debt

At the end of fiscal 2005 City had \$4,002,734 in bonds and notes outstanding as depicted in Table 5 below, a reduction of \$713,007 from the outstanding amount of \$4,715,741 at June 30, 2004.

**Table 5
Outstanding Debt at Year-End**

	Governmental Activities	
	<u>2005</u>	<u>2004</u>
T.I.F.A. Bonds	\$ 3,585,000	\$ 4,345,000
Installment loans	<u>417,734</u>	<u>370,741</u>
Total	<u>\$ 4,002,734</u>	<u>\$ 4,715,741</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the tax rates and fees for the fiscal year 2004/2005 budget. The current state of the economy has been a major contributing factor in establishing these rates.

In the upcoming, year, the Systems Control infrastructure project that was started in the fall of 2005 will be complete. The company has expanded their payroll and it is anticipated that they will add more jobs than originally planned.

Additionally, it is anticipated that Bay West Community College will initiate construction of their new campus on the north side of the City. The campus, located on 26 acres at the intersection of US 2 and Trader's Mine Road, will ultimately educate approximately 1,200 students. It is anticipated that the campus will be ready for students in the fall of 2007. This should be the impetus for new commercial development along the north US 2 corridor in the City. In conjunction with the campus, the City has applied for and is expecting to receive approximately \$500,000 in grant funds from the State Department of Transportation for the reconstruction of Trader's Mine Road at this location. The project will widen the road to three lanes; install new water, sanitary and storm sewers; prepare the intersection of signalization; construct sidewalks and improve access to the campus. This is a long waited project and will continue the overall development of the north side of the City.

With the completion of an Economic and Marketing analysis of the immediate downtown, the City will undertake an aggressive effort to bring new businesses to the downtown and help existing businesses expand or locate to new space in the downtown. According to the analysis, the downtown has the capacity to develop an additional 100,000 square feet of retail space. This is significant and the City, DDA, IMBPA and other business and civic groups will be actively involved to accept the challenge of new development. Any success in this area will improve the business climate, increase value in the City and positively impact the financial situation of the City.

In the final analysis, the City will work hard to continue the small success in overall economic development. Such efforts directly improve the quality of life for our residents.

With interest rates at a historic low level, investments lack the rate of return that the City has grown accustomed to in recent years. Also with the slow growth of the economy have come cutbacks in revenue sharing at the State level. Locally, there is some growth in the area of residential building which provides some increase in property tax revenue. There continues to be a variety of inflationary cost and expense issues. All of these were taken into consideration during the 2004/2005 budget process.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designated to provide our citizens, taxpayers and customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Manager's office at Iron Mountain, 501 S. Stephenson Avenue, Iron Mountain, MI 49801, (906) 774-8530.

CITY OF IRON MOUNTAIN

STATEMENT OF NET ASSETS

June 30, 2005

	Governmental Activities	Business-Type Activities	Total	Component Unit
ASSETS:				
Current assets:				
Cash and equivalents - unrestricted	\$ 1,791,625	\$ 438,819	\$ 2,230,444	\$ 260,998
Cash and equivalents - restricted	-	714,701	714,701	-
Investments - unrestricted	4,272,103	199,294	4,471,397	160,824
Investments - restricted	-	728,306	728,306	-
Receivables:				
Taxes	39,449	-	39,449	-
Accounts	285,003	207,582	492,585	6,214
Interest & dividends	22,855	9,736	32,591	-
Due from other funds	30,465	244	30,709	-
Inventory	135,196	94,508	229,704	382
Deferred charges	-	102,269	102,269	-
Prepaid expenses	20,052	1,836	21,888	12,199
Total current assets	6,596,748	2,497,295	9,094,043	440,617
Noncurrent assets:				
Capital assets	41,520,492	10,788,429	52,308,921	5,617,193
Accumulated depreciation	(17,994,344)	(1,823,832)	(19,818,176)	(2,770,940)
Total noncurrent assets	23,526,148	8,964,597	32,490,745	2,846,253
TOTAL ASSETS	30,122,896	11,461,892	41,584,788	3,286,870
LIABILITIES:				
Current liabilities:				
Accounts payable	226,205	342,842	569,047	14,260
Accrued other	-	73,809	73,809	25,386
Accrued wages	25,204	7,964	33,168	-
Accrued interest	31,580	-	31,580	-
Due to other funds	243	28,845	29,088	-
Due to other governmental units	9,310	33,850	43,160	-
Other liabilities	30,213	53,744	83,957	-
Bonds payable	835,000	85,000	920,000	-
Notes payable	56,757	-	56,757	-
Total current liabilities	1,214,512	626,054	1,840,566	39,646



CITY OF IRON MOUNTAIN**STATEMENT OF NET ASSETS**

June 30, 2005

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>	<u>Component Unit</u>
Noncurrent liabilities:				
Compensated absences	13,657	-	13,657	-
Bonds payable	2,750,000	4,565,000	7,315,000	-
Notes payable	360,977	-	360,977	-
Total noncurrent liabilities	3,124,634	4,565,000	7,689,634	-
TOTAL LIABILITIES	4,339,146	5,191,054	9,530,200	39,646
NET ASSETS:				
Invested in capital assets, net of related debt	19,523,414	4,314,597	23,838,011	2,846,253
Restricted for:				
Debt service	1,562,592	-	1,562,592	-
Unrestricted	4,697,744	1,956,241	6,653,985	386,747
TOTAL NET ASSETS	<u>\$ 25,783,750</u>	<u>\$ 6,270,838</u>	<u>\$ 32,054,588</u>	<u>\$ 3,233,000</u>

ANDERSON, TACKMAN
& COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

The accompanying notes to the financial statements are an integral part of this statement.

CITY OF IRON MOUNTAIN

STATEMENT OF ACTIVITIES

June 30, 2005

FUNCTIONS/PROGRAMS PRIMARY GOVERNMENT:	Program Revenue			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Component Unit
Governmental Activities:							
General government	\$ 752,813	\$ 165,047	\$ -	\$ -	\$ (587,766)	\$ -	\$ -
Public safety	2,178,036	2,362	-	-	(2,175,674)	-	-
Parks and recreation	132,005	-	-	-	(132,005)	-	-
Cemetery	242,328	80,802	-	-	(161,526)	-	-
General public works	2,943,993	167,734	-	10,342	(2,765,917)	-	-
Interest on long-term debt	220,726	-	-	-	(220,726)	-	-
Total governmental activities	6,469,901	415,945	-	10,342	(6,043,614)	-	-
Business-type activities:							
Water utility	815,577	1,305,570	-	-	-	489,993	-
Sewer	112,331	155,545	-	-	-	43,214	-
Total business-type activities	927,908	1,461,115	-	-	-	533,207	-
Component Unit:							
Public Housing	563,922	209,027	270,411	-	-	-	(84,484)
TOTAL PRIMARY GOVERNMENT	\$ 7,961,731	\$ 2,086,087	\$ 270,411	\$ 10,342	\$ (6,043,614)	\$ 533,207	\$ (84,484)
General revenues:							
Property taxes					\$ 5,080,850	\$ -	\$ -
State revenue sharing					1,766,680	-	-
Grants and contributions not restricted to specific programs					39,118	-	-
Unrestricted investment earnings					170,591	35,667	4,576
Contributions in aid of construction					-	172,611	-
Other					106,534	291	6,396
Transfers					184,754	(276,330)	-
Total general revenues and transfers					7,348,527	(67,761)	10,972
Changes in net assets					1,304,913	465,446	(73,512)
Net assets, beginning of year					24,478,837	5,805,392	3,306,512
Net assets, end of year					\$ 25,783,750	\$ 6,270,838	\$ 3,233,000

The accompanying notes to the financial statements are an integral part of this statement.

CITY OF IRON MOUNTAIN

BALANCE SHEET GOVERNMENTAL FUNDS

June 30, 2005

	General	T.I.F.A. Debt Service	Tax Increment Financing Authority	Nonmajor Governmental Funds
ASSETS:				
Cash and equivalents	\$ 299,878	\$ 58,887	\$ 495,227	\$ 822,843
Investments	496,627	1,498,478	1,382,438	819,560
Receivables:				
Taxes	24,119	-	14,868	462
Accounts	131,509	-	-	145,020
Interest & dividends	1,639	6,502	8,656	6,057
Due from other funds	37,365	-	3,234	4,175
Inventory	43,376	-	-	-
Prepaid expenses	13,888	-	-	4,761
TOTAL ASSETS	<u>\$ 1,048,401</u>	<u>\$ 1,563,867</u>	<u>\$ 1,904,423</u>	<u>\$ 1,802,878</u>
LIABILITIES:				
Accounts payable	\$ 81,198	\$ -	\$ 113,584	\$ 21,158
Other accrued expenses	28,657	-	-	198
Accrued wages	22,447	-	-	876
Deferred revenue	-	1,275	-	-
Due to other funds	3,293	-	-	11,253
Due to other governmental units	9,310	-	-	-
Other liabilities	(341)	-	-	-
TOTAL LIABILITIES	<u>144,564</u>	<u>1,275</u>	<u>113,584</u>	<u>33,485</u>
FUND BALANCE AND OTHER CREDITS:				
Fund balances:				
Reserved	-	1,562,592	1,790,839	18,161
Unreserved				
Designated	175,233	-	-	729,302
Undesignated	728,604	-	-	1,021,930
TOTAL FUND BALANCE AND OTHER CREDITS	<u>903,837</u>	<u>1,562,592</u>	<u>1,790,839</u>	<u>1,769,393</u>
TOTAL LIABILITIES, FUND BALANCE AND OTHER	<u>\$ 1,048,401</u>	<u>\$ 1,563,867</u>	<u>\$ 1,904,423</u>	<u>\$ 1,802,878</u>



**ANDERSON, TACKMAN
& COMPANY, P.L.C.**
CERTIFIED PUBLIC ACCOUNTANTS

The accompanying notes to the financial statements are an integral part of this statement.



Total
Governmental
Funds

\$ 1,676,835
4,197,103

39,449
276,529
22,854
44,774
43,376
18,649

\$ 6,319,569

\$ 215,940
28,855
23,323
1,275
14,546
9,310
(341)

292,908

3,371,592

904,535
1,750,534

6,026,661

\$ 6,319,569

CITY OF IRON MOUNTAIN

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS**

June 30, 2005

Total fund balances for governmental funds	\$ 6,026,661
--	--------------

Total net assets reported for governmental activities in the statement of net assets is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	22,371,575
---	------------

An internal service fund is used by the City to charge the cost of equipment usage to individual departments of the City which are not accounted for as an enterprise activity. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	1,433,485
---	-----------

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities, both current and long-term, are reported in the statement of net assets.

Accrued interest on long-term debt	\$ (31,580)	
Bonds payable	(3,585,000)	
Notes payable	(417,734)	
Compensated absences	<u>(13,657)</u>	<u>(4,047,971)</u>

Total net assets of governmental activities	\$ <u>25,783,750</u>
---	----------------------



CITY OF IRON MOUNTAIN

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS**

June 30, 2005

	<u>General</u>	<u>T.I.F.A. Debt Service</u>	<u>Tax Increment Financing Authority</u>	<u>Nonmajor Governmental Funds</u>
REVENUES:				
General property taxes	\$ 2,897,653	\$ -	\$ 2,190,301	\$ 36,181
Licenses and permits	9,425	-	-	-
State grants	910,606	-	-	831,269
Federal grants	44,691	-	-	-
Charges for services	257,873	-	-	-
Local sources	35,002	-	-	-
Fines and forfeits	27,606	-	-	-
Interest and rents	53,163	48,033	59,051	32,747
Unrealized gain(loss) on investments	(3,373)	13,646	(5,451)	(2,173)
Other	56,351	-	118	18,962
TOTAL REVENUES	<u>4,288,997</u>	<u>61,679</u>	<u>2,244,019</u>	<u>916,986</u>
EXPENDITURES:				
Legislative	16,791	-	-	-
General government	783,553	-	-	-
Public safety	2,210,066	-	-	956
Public works	688,699	-	732,077	762,806
Park and recreation	78,321	-	-	12,130
Building and grounds	-	-	-	1,659
Other	150,870	-	-	-
Debt service	-	967,320	-	-
TOTAL EXPENDITURES	<u>3,928,300</u>	<u>967,320</u>	<u>732,077</u>	<u>777,551</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>360,697</u>	<u>(905,641)</u>	<u>1,511,942</u>	<u>139,435</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers in	91,599	967,320	34,095	322,133
Operating transfers out	-	-	(1,035,720)	(178,682)
TOTAL OTHER FINANCING SOURCES (USES)	<u>91,599</u>	<u>967,320</u>	<u>(1,001,625)</u>	<u>143,451</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	452,296	61,679	510,317	282,886
FUND BALANCE, JULY 1	<u>451,541</u>	<u>1,500,913</u>	<u>1,280,522</u>	<u>1,486,507</u>
FUND BALANCE, JUNE 30	<u>\$ 903,837</u>	<u>\$ 1,562,592</u>	<u>\$ 1,790,839</u>	<u>\$ 1,769,393</u>

The accompanying notes to the financial statements are an integral part of this statement.



**ANDERSON, TACKMAN
& COMPANY, P.L.C.**
CERTIFIED PUBLIC ACCOUNTANTS

Total
Governmental
Funds

\$ 5,124,135
9,425
1,741,875
44,691
257,873
35,002
27,606
192,994
2,649
75,431

7,511,681

16,791
783,553
2,211,022
2,183,582
90,451
1,659
150,870
967,320

6,405,248

1,106,433

1,415,147
(1,214,402)

200,745

1,307,178
4,719,483

\$ 6,026,661

CITY OF IRON MOUNTAIN

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**

For the Year Ended June 30, 2005

Net changes in fund balances – total governmental funds	\$1,307,178
---	-------------

The changes in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense (\$1,300,681) exceeded capital outlays (\$739,269).	(561,412)
---	-----------

An internal service fund is used by the City to charge the cost of equipment usage to individual departments of the City which are not accounted for as an enterprise activity. The net revenue (expense) of the internal service fund is reported with governmental activities.	(155,590)
--	-----------

Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.

New debt	\$(115,685)	
Principal repayments:		
Bond principal	760,000	
Note principal	<u>68,685</u>	713,000

Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment combines the following net changes:

Compensated absences	\$ (5,032)	
Accrued interest on bonds	<u>6,769</u>	<u>1,737</u>

Changes in net assets of governmental activities	\$ <u>1,304,913</u>
--	---------------------



CITY OF IRON MOUNTAIN
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

June 30, 2005

	Water Utility	Enterprise Funds Sewer Fund	Total
ASSETS:			
Current assets:			
Cash and equivalents - unrestricted	\$ 402,330	\$ 36,489	\$ 438,819
Cash and equivalents - restricted	714,701	-	714,701
Investments - unrestricted	199,294	-	199,294
Investments - restricted	728,306	-	728,306
Receivables	215,672	1,646	217,318
Due from other funds	244	21,892	22,136
Inventory	94,508	-	94,508
Deferred charges	102,269	-	102,269
Prepaid expenses	1,530	306	1,836
Total current assets	<u>2,458,854</u>	<u>60,333</u>	<u>2,519,187</u>
Noncurrent assets:			
Fixed assets:			
Land	43,236	-	43,236
Water system in service	8,163,946	-	8,163,946
Vehicles	-	-	-
Equipment	2,581,247	-	2,581,247
Less: accumulated depreciation	<u>(1,823,832)</u>	<u>-</u>	<u>(1,823,832)</u>
Net fixed assets	<u>8,964,597</u>	<u>-</u>	<u>8,964,597</u>
TOTAL ASSETS	<u>11,423,451</u>	<u>60,333</u>	<u>11,483,784</u>



**ANDERSON, TACKMAN
& COMPANY, P.L.C.**
 CERTIFIED PUBLIC ACCOUNTANTS



Internal Service Fund
\$ 114,790
-
75,000
-
8,474
-
91,820
-
1,403
<u>291,487</u>
-
-
2,250,191
713,991
(1,809,608)
<u>1,154,574</u>
<u>1,446,061</u>

CITY OF IRON MOUNTAIN

**STATEMENT OF NET ASSETS
PROPRIETARY FUNDS**

June 30, 2005

	Enterprise Funds		
	Water Utility	Sewer Fund	Total
LIABILITIES:			
Current liabilities (payable from current assets):			
Accounts payable	337,136	5,706	342,842
Accrued wages	7,316	647	7,963
Accrued expenses	73,663	146	73,809
Deferred revenue	1,046	-	1,046
Due to other funds	49,215	1,523	50,738
Due to other governmental units	33,850	-	33,850
Bonds payable	85,000	-	85,000
Total current liabilities (payable from current assets)	587,226	8,022	595,248
Current liabilities (payable from restricted assets):			
Customer deposits	52,698	-	52,698
Long-term liabilities:			
Bonds payable	4,565,000	-	4,565,000
TOTAL LIABILITIES	5,204,924	8,022	5,212,946
NET ASSETS:			
Invested in capital assets, net of related debt	4,314,597	-	4,314,597
Unrestricted	1,903,930	52,311	1,956,241
TOTAL NET ASSETS	\$ 6,218,527	\$ 52,311	\$ 6,270,838

The accompanying notes to the financial statements are an integral part of this statement.



**ANDERSON, TACKMAN
& COMPANY, P.L.C.**
CERTIFIED PUBLIC ACCOUNTANTS



Internal Service Fund	
	10,265
	1,880
	424
	-
	7
	-
	-
	<u>12,576</u>
	-
	-
	<u>12,576</u>
	1,154,574
	<u>278,911</u>
	<u><u>\$ 1,433,485</u></u>

CITY OF IRON MOUNTAIN

**STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS**

June 30, 2005

	Enterprise Funds		
	Water Utility	Sewer Fund	Total
OPERATING REVENUES:			
Charges for services	\$ 1,284,791	\$ 155,545	\$ 1,440,336
Rental income	-	-	-
Other	20,779	291	21,070
TOTAL OPERATING REVENUES	1,305,570	155,836	1,461,406
OPERATING EXPENSES:			
Production	88,384	112,331	200,715
Distribution	240,281	-	240,281
Administration	234,196	-	234,196
Collection	86,833	-	86,833
Depreciation	120,077	-	120,077
Personnel	-	-	-
Supplies	-	-	-
Other services and charges	-	-	-
TOTAL OPERATING EXPENSES	769,771	112,331	882,102
OPERATING INCOME (LOSS)	535,799	43,505	579,304
NON-OPERATING REVENUES (EXPENSES):			
Contributions in aid of construction:			
TIFA	172,611	-	172,611
Interest and rents	37,912	176	38,088
Unrealized gain (loss)	(2,421)	-	(2,421)
Deferred charge expense	(3,527)	-	(3,527)
Bond interest expense and fees	(42,279)	-	(42,279)
Debt service	-	-	-
Other	-	-	-



**ANDERSON, TACKMAN
& COMPANY, P.L.C.**
CERTIFIED PUBLIC ACCOUNTANTS



Internal Service Fund	
	\$ -
	395,480
	<u>4,333</u>
	<u>399,813</u>
	-
	-
	-
	-
	160,246
	216,410
	64,635
	<u>140,880</u>
	<u>582,171</u>
	<u>(182,358)</u>
	-
	4,040
	-
	-
	(20,175)
	(68,685)
	<u>127,578</u>

CITY OF IRON MOUNTAIN

**STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS**

June 30, 2005

	Enterprise Funds		
	Water Utility	Sewer Fund	Total
TOTAL NON-OPERATING REVENUES (EXPENSES)	162,296	176	162,472
Income (loss) before transfers and contributions	698,095	43,681	741,776
OPERATING TRANSFERS:			
Operating transfers in:			
Water Capital Improvement Fund	5,168	8,630	13,798
Operating transfers out:			
Water Capital Improvement Fund	(214,633)	-	(214,633)
Health Insurance Fund	(75,495)	-	(75,495)
TOTAL TRANSFERS	(284,960)	8,630	(276,330)
Change in net assets	413,135	52,311	465,446
NET ASSETS, BEGINNING OF YEAR	5,805,392	-	5,805,392
NET ASSETS, END OF YEAR	<u>\$ 6,218,527</u>	<u>\$ 52,311</u>	<u>\$ 6,270,838</u>



**ANDERSON, TACKMAN
& COMPANY, P.L.C.**
CERTIFIED PUBLIC ACCOUNTANTS

The accompanying notes to the financial statements are an integral part of this statement.



Internal
Service
Fund

42,758

(139,600)

-

-

(15,990)

(15,990)

(155,590)

1,589,075

\$ 1,433,485

CITY OF IRON MOUNTAIN

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS

June 30, 2005

	Water Utility	Enterprise Funds Sewer Fund	Total
OPERATING ACTIVITIES:			
Receipts from operations	\$ 1,206,354	\$ 134,533	\$ 1,340,887
Receipts from other operating activities	20,779	291	21,070
Payments for operating expenses	(6,753)	(35,309)	(42,062)
Payments for wages and related benefits	(403,658)	(71,833)	(475,491)
NET CASH PROVIDED BY OPERATING ACTIVITIES	816,722	27,682	844,404
NON-CAPITAL FINANCING ACTIVITIES:			
Transfers from other funds	5,168	8,630	13,798
Transfers to other funds	(290,128)	-	(290,128)
Other	(4,410)	-	(4,410)
NET CASH PROVIDED (USED) BY NON-CAPITAL FINANCING ACTIVITIES	(289,370)	8,630	(280,740)
CAPITAL AND RELATED FINANCING ACTIVITIES:			
Contributed capital	172,611	-	172,611
Proceeds from new borrowings	4,800,000	-	4,800,000
Repayment of loan principal	(150,000)	-	(150,000)
Repayment of loan interest	(120,126)	-	-
Proceeds from sale of fixed assets	-	-	-
Acquisition of fixed assets	(3,661,342)	-	(3,661,342)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	1,041,143	-	1,041,143
INVESTING ACTIVITIES:			
Investment income	28,357	177	28,534
Purchase of investments	(730,000)	-	-
Proceeds from investment sales	-	-	-
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(701,643)	177	(701,466)
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	866,852	36,489	903,341
CASH AND EQUIVALENTS, BEGINNING OF YEAR	250,179	-	250,179
CASH AND EQUIVALENTS, END OF YEAR	\$ 1,117,031	\$ 36,489	\$ 1,153,520



ANDERSON, TACKMAN
& COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS



Internal Service Fund
\$ 402,941
4,333
(215,962)
(219,262)
<u>(27,950)</u>
-
(15,990)
-
<u>(15,990)</u>
-
115,685
(88,861)
13,050
<u>(136,026)</u>
<u>(96,152)</u>
4,335
-
<u>75,000</u>
<u>79,335</u>
(60,757)
<u>175,547</u>
<u>\$ 114,790</u>

CITY OF IRON MOUNTAIN

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS**

June 30, 2005

	Water Utility	Enterprise Funds Sewer Fund	Total
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income (loss)	\$ 535,799	\$ 43,505	\$ 579,304
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	120,077	-	120,077
Changes in assets and liabilities:			
Decrease (Increase) in receivables	(80,144)	880	(79,264)
Decrease (Increase) in due from other funds	1,708	(21,892)	(20,184)
Decrease (Increase) in inventory	6,084	-	6,084
Decrease (Increase) in prepaids	(472)	(306)	(778)
Decrease (Increase) in deferred charges	(102,269)	-	(102,269)
Increase (Decrease) in accounts payable	323,788	5,706	329,494
Increase (Decrease) in interest payable	-	-	-
Increase (Decrease) in accrued payroll	(747)	792	45
Increase (Decrease) in due to other funds	1,572	(1,003)	569
Increase (Decrease) in other liabilities/deposits	11,326	-	11,326
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 816,722</u>	<u>\$ 27,682</u>	<u>\$ 844,404</u>



**ANDERSON, TACKMAN
& COMPANY, P.L.C.**
CERTIFIED PUBLIC ACCOUNTANTS

The accompanying notes to the financial statements are an integral part of this statement.



Internal
Service
Fund

\$ (182,358)

160,246

5,780

1,680

(14,489)

(290)

-

4,325

-

(2,851)

7

-

\$ (27,950)

CITY OF IRON MOUNTAIN

STATEMENT OF FIDUCIARY NET ASSETS FIDUCIARY FUNDS

June 30, 2005

	<u>Expendable Trust Fund</u>	<u>Non-Expendable Trust Fund</u>	<u>Pension Trust Fund</u>
	Health Insurance	Cemetery Perpetual Care	Police and Fire Pension
ASSETS:			
Cash and equivalents	\$ 83,271	\$ 27,084	\$ 1,185
Receivables:			
Interest and dividends	7,802	2,841	-
Investments, at fair value	<u>748,540</u>	<u>424,112</u>	<u>6,999,420</u>
TOTAL ASSETS	<u>839,613</u>	<u>454,037</u>	<u>7,000,605</u>
LIABILITIES:			
Accounts payable	3,779	-	-
Due to other funds	<u>-</u>	<u>1,620</u>	<u>-</u>
TOTAL LIABILITIES	<u>3,779</u>	<u>1,620</u>	<u>-</u>
NET ASSETS:			
Held in trust for pension benefits and other purposes	<u>\$ 835,834</u>	<u>\$ 452,417</u>	<u>\$ 7,000,605</u>

ANDERSON, TACKMAN
& COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS



The accompanying notes to the financial statements are an integral part of this statement.

CITY OF IRON MOUNTAIN

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS FIDUCIARY FUNDS

For the Year Ended June 30, 2005

	Expendable Trust Fund	Non-Expendable Trust Fund	Pension Trust Fund
	Health Insurance	Cemetery Perpetual Care	Police and Fire Pension
ADDITIONS:			
Contributions:			
Employer	\$ -	\$ -	\$ 353,966
Plan members	3,975	-	65,088
Other	28,202	-	-
Total contributions	32,177	-	419,054
Investment earnings:			
Net increase (decrease) in fair value of assets	(5,133)	(43)	(93,143)
Interest	37,218	18,673	125,370
Dividends	-	-	80,991
Loss on sale of securities (net of gains)	-	-	389,051
Total investment earnings	32,085	18,630	502,269
Other	-	10,450	79,568
Transfer in	110,134	-	-
TOTAL ADDITIONS	174,396	29,080	1,000,891
DEDUCTIONS:			
Benefits	-	-	684,141
Retirees health insurance	673,857	-	-
Administrative expenses	-	-	76,494
Other	-	-	1,644
Transfer out	-	18,558	-
TOTAL DEDUCTIONS	673,857	18,558	762,279
Change in net assets	(499,461)	10,522	238,612
NET ASSETS, BEGINNING OF YEAR	1,335,295	441,895	6,761,993
NET ASSETS, END OF YEAR	\$ 835,834	\$ 452,417	\$ 7,000,605

The accompanying notes to the financial statements are an integral part of this statement.



CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

THE REPORTING ENTITY

The City of Iron Mountain, Michigan ("City") was incorporated in 1889 under the provisions of the State of Michigan. Pursuant to a Home Rule Charter adopted by public vote on October 22, 1985, the City operates under a Council-Manager form of government and provides the following services to its residents: public safety (police and fire), highway and streets, sanitation, culture-recreation, public improvements, planning and zoning, certain public utilities and general administrative services.

The City, for financial reporting purposes, includes all of the funds and account groups relevant to its operations. The financial statements presented herein do not include agencies which have been formed under applicable state laws or separate distinct units of government apart from the City. The accompanying financial statements present the City's primary government and component units over which the City exercises significant influence. Significant influence or accountability is based primarily on operational or financial relationships with the City (as distinct from legal relationships).

The criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity's financial statements include budget adoption, taxing authority, funding, appointment of the respective governing board and scope of public service.

Based on the foregoing criteria, the financial statements of the City's Downtown Development Authority (D.D.A.) and Tax Increment Financing Authority (T.I.F.A.) are included in the accompanying financial statements.

The Iron Mountain Housing Commission (Commission) is included as a discretely presented component unit of the City. The Commission provides safe and affordable housing for low income and elderly individuals. The Commission was formed under Public Act 18 of 1933 of the State of Michigan and operates under a Board of Commissioners appointed by the City Manager. The Commission issues separately audited financial statements and can be obtained from the Iron Mountain Housing Commission at 401 East "D" Street, Iron Mountain, MI 49801.

Similarly, it has been determined that the financial statements of the following organizations should not and accordingly, are not included in the accompanying financial statements: Joint Sewage Authority, Central Landfill Authority, the Economic Development Authority and the School District of the City of Iron Mountain.

The accounting policies of the City conform to accounting principles generally accepted in the United States of America. The following is a summary of such significant policies.



CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BASIS OF PRESENTATION

Government-Wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the City as a whole. They include all funds of the City except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements:

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. Funds are organized into three major categories: governmental, proprietary and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. The General Fund is always considered a major fund and the remaining funds of the City are considered major if it meets the following criteria:

- a. Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The City reports the following as major governmental funds in accordance with the above criteria:

The General Fund which is described below.

T.I.F.A. Debt Service Fund which is described below.

Tax Increment Financing Authority Fund which is described below.

The City reports the following as major enterprise funds in accordance with the above criteria:

CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BASIS OF PRESENTATION (Continued)

The Water Utility Fund which is described below.

The Sewer Fund which is described below.

The funds of the City are described below:

Governmental Funds

General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trust or major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Funds - Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Project Funds - Capital Project Funds are used to account for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

Proprietary Funds

Enterprise Funds - Enterprise Funds are used to account for operations (a) which are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Internal Service Funds - Internal Service Funds are used to finance, administer, and account for the financing of goods and services provided by one department or agency to other departments or agencies of the governmental unit on a cost reimbursement basis.

Fiduciary Funds

Trust and Agency Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, other governments and other funds. These include expendable and nonexpendable trust, pension trust, and agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.



CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus:

On the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-type activities are presented using the economic resource measurement focus as defined in item b. below.

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate:

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable resources at the end of the period.
- b. The proprietary funds utilize an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets, financial position and cash flows. All assets and liabilities, whether current or noncurrent, associated with their activities are reported. Proprietary fund equity is classified as net assets.
- c. Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

Basis of Accounting:

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.



CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (Continued)

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under the modified basis of accountings, revenues are recognized when "measurable and available". Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures, including capital outlay, are recorded when the related liability is incurred, except for principal and interest on general long-term debt and accrued compensated absences, which are reported when due.

As allowed by GASB Statement No. 20, the City's business-type activities and enterprise funds follow all GASB pronouncements and FASB Statements and Interpretations that were issued on or after November 30, 1989, except those that conflict with a GASB pronouncement.

ASSETS, LIABILITIES AND NET ASSETS/FUND BALANCE

- a. Cash and Equivalents – The City's cash and cash equivalents as reported in the Statement of Cash Flows and the Statement of Net Assets are considered to be cash on hand, demand deposits and short-term investments with maturities of three months or less.
- b. Investments – Investments are stated at the fair-market value of the underlying securities.
- c. Receivables – All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectable.
- d. Due to and Due From Other Funds – Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.
- e. Inventory – Inventories of the City's General, Water Utility, Sewer, and Motor Vehicle and Equipment Replacement Funds consist of supplies of repair and replacement parts maintained for internal consumption. Quantities are determined by a physical count and/or measurement which is then priced using current costs.
- f. Fixed Assets – The accounting and reporting treatment applied to property plant and equipment depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.



CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASSETS, LIABILITIES AND NET ASSETS/FUND BALANCE (Continued)

Government-Wide Statements:

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings and improvements	10-40 years
Machinery and equipment	5-20 years
Infrastructure	20-80 years

Fund Financial Statements:

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide financial statements.

The City has adopted a capitalization policy for fixed assets of \$1,000 per item.

- g. Restricted Assets - These assets are comprised of cash, certificates of deposit and other investments which are equal to the balance of utility customer service deposits. Specifically the accounts and their balances are as follows:

Cash in checking - an amount equal to utility service customer deposits.	<u>\$52,698</u>
--	-----------------

- h. Long-Term Debt - The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of bonds payable and notes payable.

CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASSETS, LIABILITIES AND NET ASSETS/FUND BALANCE (Continued)

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principle and interest reported as expenditures. The accounting for proprietary funds is the same in the fund statements as it is in the government-wide statements.

- i. Compensated Absences - It is the City's policy to permit employees to accumulate a limited amount of earned but unused sick leave, which will be paid to employees upon separation from the City. In governmental funds, the cost of sick leave is recognized when payments are made to employees. In proprietary funds, the cost of vested sick leave is recognized as an expense as earned by the employees.

- j. Equity Classification

Government-Wide Statements:

Equity is classified as net assets and displayed in three components:

1. Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
2. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions of enabling legislation.
3. Unrestricted net assets – All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Statements:

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated, if appropriate. Proprietary fund equity is classified the same as in the government-wide statements.





CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

REVENUES AND EXPENDITURES/EXPENSES

Revenues:

Government-Wide Statements:

In the government-wide Statement of Activities, revenues are segregated by activity (governmental or business-type), and are classified as either a program revenue or a general revenue. Program revenues include charges to customers or applicants for goods or services, operating grants and contributions and capital grants and contributions. General revenues includes all revenues which do not meet the criteria of program revenues and include revenues such as property taxes, State revenue sharing payments and interest earnings.

Fund Statements:

In the governmental fund statements revenues are reported by source, such as federal sources, state sources and taxes. Revenues consist of general purpose revenues and restricted revenues. General purpose revenues are available to fund any activity reported in that fund, while restricted revenues are available for a specific purpose or activity and the restrictions are typically required by law or a grantor agency.

Expenses/Expenditures:

Government-Wide Statements:

In the government-wide Statement of Activities, expenses are segregated by activity (governmental or business-type), and are classified by function.

Fund Statements:

In the governmental fund financial statements expenditures are classified by function.

In the proprietary fund financial statements expenses are classified by operating and nonoperating and are subclassified by function such as salaries, supplies and contracted services.

Operating Revenues and Expenses:

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing or investing activities.



CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

REVENUES AND EXPENDITURES/EXPENSES (Continued)

Other Financing Sources (Uses):

The transfers of cash between the various City funds are budgeted but reported separately from revenues and expenditures as operating transfers in or (out), unless they represent temporary advances to be repaid, in which case, they are carried as assets and liabilities of the advancing or borrowing funds.

OTHER SIGNIFICANT ACCOUNTING POLICIES

Interfund Activity:

As a general rule, the effect of interfund activity has been eliminated from the government-wide statements. Exceptions to this rule are: 1) activities between funds reported as governmental activities and funds reported as business-type activities, and 2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct cost and program revenues for the functions concerned.

In the fund financial statements, transfers represent flows of assets without equivalent flows of assets in return or a requirement for repayment.

Interfund receivables and payables have been eliminated from the Statement of Net Assets, except for the residual amounts due between governmental and business-type activities.

Budgets and Budgetary Accounting:

The City Council follows these procedures in establishing the budgetary data reflected in the financial statements:

- (1) Prior to the first Monday in April, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year, along with estimates for the current year and actual data for the two preceding years. The City Charter requires that the budget be submitted in summary form. In addition, detailed line item budgets are included for administrative control. The level of control for the detailed budgets is at the functional level.
- (2) Public hearings are conducted to obtain taxpayer comment.
- (3) Prior to May 31, the budget is legally enacted through passage of a resolution.
- (4) The City Manager is required by the City Charter to present a quarterly report to the City Council explaining any variance from the approved budget.



CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

OTHER SIGNIFICANT ACCOUNTING POLICIES (Continued)

- (5) Formal budgetary integration is employed as a management control device during the year for the General, Special Revenue, Debt Service, Enterprise, Internal Service and Expendable Trust Funds.
- (6) Budgets for those funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). (See Basis of Accounting above).
- (7) The City Charter requires the adoption of a summary budget for proprietary funds.
- (8) Appropriations lapse at the end of each fiscal year.
- (9) The City Council may authorize supplemental appropriations during the year.

The budget for the year ended June 30, 2005 was formally adopted by action of the City Council on May 24, 2004 and was amended on February 21, 2005 and June 16, 2005.

Property Taxes:

Property taxes attach as an enforceable lien on property as of January 1, and are levied, due and payable as of July 1. All unpaid taxes become delinquent on August 10 of the same year. Property tax revenues are recognized when they become available. Available includes those taxes expected to be collected within sixty days after year end.

RESERVATIONS AND DESIGNATIONS OF FUND BALANCES AND RETAINED EARNINGS

Reservations are used to indicate that a portion of fund balance/retained earnings is not appropriable for expenditure or is legally segregated for a specific future use.

Designations indicate tentative plans or intent for resource utilization in a future period and are thus subject to change and may never be legally authorized or result in expenditure.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.



CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

(Continued)

NOTE B - CASH AND INVESTMENTS

Cash and Equivalents

The City's cash and equivalents, as reported in the Statement of Net Assets, consisted of the following:

Petty cash	\$ 1,650
Checking accounts	100,000
Repurchase sweep checking accounts	<u>2,843,495</u>
TOTAL	<u>\$2,945,145</u>

Custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require and the City does not have a policy for deposit custodial credit risk. As of June 30, 2005, the City's checking accounts were not exposed to credit risk because they were fully insured. The repurchase sweep checking accounts were collateralized with U.S. Govt. securities with a fair market value of \$4,195,284 at June 30, 2005.

Investments

The City's investments, as reported in the Statement of Net Assets, consisted of the following:

<u>Investment Type</u>	<u>Fair Value</u>	<u>(Investment Maturities in Years)</u>		
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>
Repurchase Agreements	\$ 250,000	\$ 250,000	\$ -	\$ -
Certificates of Deposit	2,779,544	1,116,303	1,663,241	-
Pooled Funds	245	245	-	-
U.S. Agencies	<u>2,169,914</u>	<u>-</u>	<u>1,245,301</u>	<u>924,613</u>
TOTAL	<u>\$5,199,703</u>	<u>\$1,366,548</u>	<u>\$2,908,542</u>	<u>\$924,613</u>

Investments are recorded at fair market value, which is based on quoted market prices.

Michigan statutes authorize the City to invest in bonds, other direct obligations and repurchase agreements of the United States, certificates of deposits, savings accounts, deposit accounts or receipts of a bank which is a member of the FDIC, commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures within 270 days of date of purchase, bankers' acceptances of United States banks, obligations of the State of Michigan and its political subdivisions, external investment pools, and certain mutual funds.

Interest rate risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the City's investments. State law limits the allowable investments as described above. The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.



CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

(Continued)

NOTE B - CASH AND INVESTMENTS (Continued)

Investments (Continued)

Credit Risk. Credit risk is the risk that an issuer or other party to an investment will not fulfill its obligations. The City has no investment policy limiting its investments in excess of state law on investment credit. Ratings are not required for the City's investments outlined above. The City's investments are in accordance with statutory authority.

NOTE C - RETIREMENT PLANS

Michigan Employee's Retirement System (MERS)

Description of Plan and Plan Assets - The Plan is an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS); administered by the State of Michigan. The system provides the following provisions: normal retirement, deferred retirement and service retirement to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.25 percent times the final average compensation (FAC) with a maximum benefit of 80% of FAC. The most recent period of which actuarial data was available was for the fiscal year ended December 31, 2004.

MERS was organized pursuant to Section 12a of Act #156, Public Acts of 1851 (MSA 5.3333 (a); MCLA 46.12 (a), as amended, State of Michigan. MERS is regulated under Act No. 427 of Public Acts of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and requires supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy - The obligation to contribute to and maintain the system for these employees was established by the City, which requires employees to contribute 5% of gross wages to the plan. The City is required to contribute at an actuarially determined rate. The contribution rate as a percentage of payroll at December 31, 2004 was 24.93%.

Annual Pension Cost - During the fiscal year ended December 31, 2004, the City's contributions totaling \$212,314 and employee contributions of \$59,072 were made in accordance with contribution requirement determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8 percent and annual salary increases of 4.5 percent based on an age-related scale to reflect merit, longevity, and promotional salary increases.

CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

(Continued)

NOTE C - RETIREMENT PLANS (Continued)

Three-Year Schedule of Funding Progress

Actuarial Valuation Date	Accrued Actuarial Value of Assets (a)	Actuarial Liability - (AAL)Entry Age (b)	Underfunded AAL (UAAL) (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((a-b)/c)
12/31/02	\$6,361,785	\$8,989,857	\$(2,628,072)	71%	1,096,880	(240%)
12/31/03	\$6,446,615	\$9,271,240	\$(2,824,625)	70%	1,185,582	(238%)
12/31/04	\$6,499,458	\$9,878,776	\$(3,379,318)	66%	1,088,559	(310%)

Police and Fireman's Retirement System

Description of Plan and Plan Assets

In September, 1938 the City voters approved establishing a Police and Firemen's Retirement system pursuant to Act 345 of the Public Acts of 19377, as amended. The retirement system covers all full time employees of the City's public safety department. Benefits are payable to retirees age 60 or older, regardless of their years of service or age 50 with 25 or more years of service.

The City's contribution to the system amounted to \$353,966 for the year ended June 30, 2005 and has been determined to be \$391,701 for the fiscal year beginning July 1, 2005.

Funding Policy - The obligation to contribute to and maintain the system for these employees was established by the City, which requires employees to contribute 5% of gross wages to the plan. The City is required to contribute at an actuarially determined rate. The contribution rate as a percentage of payroll at June 30, 2005 was 25.51%.

Annual Pension Cost - During the fiscal year ended June 30, 2005, the City's contributions totaling \$353,966 and employee contributions of \$65,088 were made in accordance with contribution requirement determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 7.5 percent and annual salary increases of 4.5 percent based on an age-related scale to reflect merit, longevity, and promotional salary increases.



CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

(Continued)

NOTE C - RETIREMENT PLANS (Continued)

Three-Year Schedule of Funding Progress

Actuarial Valuation Date	Accrued Actuarial Value of Assets (a)	Actuarial Liability - (AAL)Entry Age (b)	Underfunded AAL (UAAL) (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((a-b)/c)
6/30/02	\$8,052,027	\$ 9,634,961	\$(1,582,934)	84%	1,259,241	(126%)
6/30/03	\$7,814,505	\$10,328,310	\$(2,513,805)	76%	1,317,719	(191%)
6/30/04	\$7,599,354	\$10,716,806	\$(3,117,452)	71%	1,340,972	(232%)

NOTE D - INTERFUND BALANCES AND TRANSFERS

During the course of normal operations, the City has numerous transactions between funds including expenditures and transfers of resources. Such transactions are generally reflected as transfers in the various funds' financial statements.

In the fund financial statements, individual interfund receivable and payable balances at June 30, 2005 arising from these transactions are as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Fund</u>	<u>Interfund Payables</u>
General Fund	\$ 37,365	General Fund	\$ 3,293
T.I.F.A.	3,234	Nonmajor governmental	11,253
Nonmajor governmental	4,175	Water Utility	49,214
Water Utility	244	Sewer	1,523
Sewer	<u>21,892</u>	Cemetery Trust	1,620
		Motor Vehicle	<u>7</u>
Totals	<u>\$ 66,910</u>		<u>\$ 66,910</u>



CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

(Continued)

NOTE D - INTERFUND BALANCES AND TRANSFERS (Continued)

In the statement of net assets, interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	\$ 30,466	Water Capital	
Water Utility	<u>243</u>	Improvement	\$ 243
		Water Utility	27,322
		Sewer	<u>1,523</u>
Totals	\$ <u>30,709</u>		\$ <u>29,088</u>

In the fund financial statement, interfund transfers for the year ended June 30, 2005 were as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Fund</u>	<u>Transfers Out</u>
General Fund	\$ 91,598	Nonmajor governmental	\$ 178,682
Nonmajor governmental	322,133	T.I.F.A.	1,035,720
T.I.F.A. Debt Service	967,320	Water Utility	290,128
T.I.F.A.	34,095	Motor Vehicle	15,990
Water Utility	5,168	Cemetery Trust	<u>18,558</u>
Sewer	8,630		
Health Insurance	<u>110,134</u>		
Totals	\$ <u>1,539,078</u>		\$ <u>1,539,078</u>

In the statement of activities, interfund transfers are as follows:

<u>Fund</u>	<u>Transfer In</u>	<u>Fund</u>	<u>Transfer Out</u>
General Fund	\$ 18,558	Major Street	\$ 9,770
Water Capital		Local Street	8,879
Improvements	214,633	Capital Improvements	8,630
Water Utility	5,168	Water Capital	
Sewer Fund	<u>8,630</u>	Improvement	5,168
		Water Utility	290,128
		Motor Vehicle	<u>15,990</u>
Totals	\$ <u>246,989</u>		\$ <u>338,565</u>





CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

(Continued)

NOTE E - CAPITAL ASSETS

GOVERNMENTAL ACTIVITIES

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated. Fixed asset activity for the year ended June 30, 2005 was as follows:

	July 1, 2004	<u>Cost</u>		June 30, 2005
		<u>Additions</u>	<u>Deletions</u>	
Land and improvements	\$ 3,203,854	\$ 141,015	\$ -	\$ 3,344,869
Buildings	4,274,161	-	-	4,274,161
Equipment	1,329,056	78,666	(13,713)	1,394,009
Vehicles	2,315,121	136,025	(200,955)	2,250,191
Sewer system	12,575,395	245,614	(355,102)	12,465,907
Street system	17,559,685	273,975	(42,303)	17,791,357
Total Cost	<u>\$41,257,272</u>	<u>\$ 875,295</u>	<u>\$(612,073)</u>	<u>\$41,520,494</u>

Accumulated Depreciation

	July 1, 2004	Current Depreciation	Deletions	June 30, 2005
Land improvements	\$ 191,175	\$ 10,253	\$ -	\$ 201,410
Buildings	1,292,286	108,820	-	1,401,106
Equipment	912,083	85,382	(23,558)	973,907
Vehicles	1,405,452	124,798	(200,955)	1,329,295
Sewer system	3,299,825	250,726	(343,654)	3,206,899
Roads	10,043,513	880,966	(42,750)	10,881,729
Total Accumulated Depreciation	<u>17,144,334</u>	<u>\$1,460,927</u>	<u>\$(610,917)</u>	<u>17,994,344</u>
Net Assets	<u>\$24,112,938</u>			<u>\$23,526,150</u>

Depreciation expense was charged to governmental activities as follows:

Governmental activities:

General government	\$ 198,914
Public safety	37,292
Parks and recreation	41,554
Cemetery	2,775
General public works	<u>1,180,392</u>

Total governmental activities depreciation expense \$ 1,460,927

CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

(Continued)

NOTE E - CAPITAL ASSETS (Continued)

BUSINESS TYPE ACTIVITIES

	July 1, 2004	<u>Cost</u> Additions	Deletions	June 30, 2005
Land	\$ 43,236	\$ -	\$ -	\$ 43,236
Equipment	177,796	2,250	-	180,346
Water system	<u>6,754,372</u>	<u>3,810,475</u>	-	<u>10,564,847</u>
Total Cost	<u>\$6,975,404</u>	<u>\$3,813,025</u>	<u>\$ -</u>	<u>\$10,788,429</u>

Accumulated Depreciation

	July 1, 2004	Additions	Deletions	June 30, 2005
Equipment	\$ 82,655	\$ 9,478	\$ -	\$ 92,133
Water system	<u>1,621,101</u>	<u>110,598</u>	-	<u>1,731,699</u>
Total Accumulated Depreciation	<u>1,703,756</u>	<u>\$ 120,076</u>	<u>\$ -</u>	<u>1,823,832</u>
Net Assets	<u>\$ 5,271,648</u>			<u>\$8,964,597</u>

Depreciation charged to expense was \$120,076 for the year ended June 30, 2005.

NOTE F - LONG-TERM DEBT

GOVERNMENTAL ACTIVITIES

The following is a summary of changes in long-term debt for the year ended June 30, 2005:

<u>Type of Debt</u>	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005	Amounts Due Within One Year
1991 T.I.F.A. Bonds	\$ 695,000	\$ -	\$ (335,000)	\$ 360,000	\$ 360,000
1993 T.I.F.A. Bonds	3,650,000	-	(425,000)	3,225,000	475,000
1996 Installment Note	50,466	-	(25,151)	25,315	25,315
1995 Installment Note	22,586	-	(22,586)	-	-
2002 Installment Note	297,689	-	(16,751)	280,938	17,509
2005 Installment Note	-	96,000	(4,204)	91,796	3,985
2006 Installment Note	-	19,685	-	19,685	9,948
Vested compensated absences	<u>8,613</u>	<u>5,044</u>	-	<u>13,657</u>	-
Total long-term debt	<u>\$ 4,724,354</u>	<u>\$ 120,729</u>	<u>\$ (828,692)</u>	<u>\$ 4,016,391</u>	<u>\$ 891,757</u>

The total amount of interest charged to expense was \$220,726.



CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

(Continued)

NOTE F - LONG-TERM DEBT (Continued)

BUSINESS-TYPE ACTIVITIES

<u>Type of Debt</u>	<u>Balance</u> <u>July 1, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2005</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
2004 Bonds Payable \$ _____	-	\$4,800,000	\$150,000	\$4,650,000	\$85,000

The total amount of interest charged to expense was \$41,396. Interest expenses capitalized during the year amounted to \$78,370.

GOVERNMENTAL ACTIVITIES

Debt service requirements on long-term debt at June 30, 2005 are as follows:

<u>For the Year</u> <u>Ending June 30</u>	<u>Notes Payable</u>		<u>Bonds Payable</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2006	\$ 56,757	\$ 18,378	\$ 835,000	\$ 170,850	\$ 1,005,850
2007	36,386	17,168	510,000	131,800	641,800
2008	27,919	15,622	540,000	106,300	646,300
2009	29,309	14,232	560,000	79,300	639,300
2010	30,751	12,789	565,000	51,300	616,300
2011-2015	177,848	39,855	575,000	25,875	600,875
2016-2020	<u>58,764</u>	<u>4,725</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 417,734</u>	<u>\$ 122,769</u>	<u>\$ 3,585,000</u>	<u>\$ 565,425</u>	<u>\$ 4,150,425</u>

It is estimated that vested compensated absences will mature subsequent to the year ending June 30, 2006.





CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

(Continued)

NOTE F - LONG-TERM DEBT (Continued)

BUSINESS-TYPE ACTIVITIES

For the Year Ending June 30	Principal	Bonds Payable Interest	Total
2006	\$ 85,000	\$ 216,915	\$ 301,915
2007	85,000	213,515	298,515
2008	90,000	210,115	300,115
2009	90,000	206,515	296,515
2010	95,000	202,915	297,915
2011-2015	530,000	954,775	1,484,775
2016-2020	660,000	834,975	1,494,975
2021-2025	835,000	669,583	1,504,583
2026-2030	1,085,000	442,250	1,527,250
2031-2035	<u>1,095,000</u>	<u>140,250</u>	<u>1,235,250</u>
Total	<u>\$ 4,650,000</u>	<u>\$ 4,091,808</u>	<u>\$ 8,741,808</u>

GOVERNMENTAL ACTIVITIES

As of June 30, 2005, the governmental activities long-term debt consisted of the following:

1991 Bonds Payable

1991 Tax Increment Bonds originally totaling \$3,350,000 (denomination \$5,000 each) dated December 1, 1991 mature annually on May 1 through 2006. Interest is paid semi-annually on November 1, and May 1 of each year at the stated coupon rate as reflected below.

The bonds were issued by the Tax Increment Finance Authority of the City of Iron Mountain for the purpose of financing the following capital projects:

1. The redevelopment of an existing building into new City Hall administrative offices.
2. The construction of a new Police/Fire Department facility.
3. The construction of a new Department of Public Works facility.



CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

(Continued)

NOTE F - LONG-TERM DEBT (Continued)

The bonds and interest thereon are payable primarily from the property tax revenues of the Tax Increment Finance Authority. As additional security for the payment of bond principal and interest, the City has pledged its full faith and credit. Hence, these bonds are said to be limited tax general obligation bonds.

Bonds or portions of bonds in multiples of \$5,000 of this issue maturing in the years 2000 to 2006, inclusive, are subject to redemption, at the option of the Authority in such order as the Authority shall determine within any maturity by lot, on any interest payment date on or after May 1, 1999 at par and accrued interest to date fixed for redemption.

1993 Bonds Payable

1993 Tax Increment Bonds originally totaling \$5,715,00 (denomination \$5,000 each) dated February 1, 1993 mature annually on May 1 through 2011. Interest is paid semi-annually on November 1, and May 1 of each year at the stated coupon rate as reflected below.

The bonds were issued by the Tax Increment Finance Authority of the City of Iron Mountain for the purpose of financing the following capital projects:

The project included separation of storm sewer from sanitary sewer and placement of approximately 25,000 lineal feet of new trunk line storm sewer, storm sewer leads, manholes, catch basins and related appurtenances within the Tax Increment Finance Authority City (TIFA City) and adjacent tributary areas to correct flooding problems within the TIFA City. Also included was improvement to Mud Lake (East) for detention of storm water and selected water main and other sanitary sewer improvements.

The bonds and interest thereon are payable primarily from the property tax revenues of the Tax Increment Finance Authority. As additional security for the payment of bond principal and interest, the City has pledged its full faith and credit. Hence, these bonds are said to be limited tax general obligation bonds.

Bonds or portions of bonds in multiples of \$5,000 of this issue maturing in the years 2002 to 2011, inclusive, are subject to redemption, at the option of the Authority in such order of maturity as determined by the Authority and by lot, on any interest payment date on or after May 1, 2001 at par and accrued interest to date fixed for redemption plus a premium expressed as a percentage of par as follows:

1% of the principal amount of each Bond or portion thereof called for redemption on or after May 1, 2003 but prior to May 1, 2005;

No premium shall be paid on Bonds or portions thereof called for redemption on or after May 1, 2005.



CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

(Continued)

NOTE F - LONG-TERM DEBT (Continued)

Notes Payable

5.17% loan payable \$13,739 semi-annually including interest and secured by truck equipment. The loan was as of March 25, 1996 in the original amount of \$211,718 and it matures in the year 2006. The loan balance at June 30, 2005 was \$25,315.

5.06% loan payable \$15,872 semi-annually including interest and secured by truck equipment. The loan was in the original amount of \$329,251 and it matures in 2017. The loan balance at June 30, 2005 was \$280,938.

4.10% loan payable \$5,898 semi-annually plus interest and secured by truck equipment. The loan was as of December 28, 2004 in the original amount of \$96,000 and it matures in the year 2014. The loan balance at June 30, 2005 was \$91,796.

2.80% loan payable \$10,013 annually including interest and is unsecured. The loan was, as of June 17, 2005 in the original amount of \$19,685 and it matures in 2006. The loan balance at June 30, 2005 was \$19,685.

BUSINESS-TYPE ACTIVITIES

2004 Bonds Payable

Series 2004 Limited Tax General Obligation Bonds originally totaling \$4,800,000 (denomination \$5,000 each) dated August 1, 2004 mature annually on March 1 through 2034. Interest is paid semi-annually on September 1 and March 1 of each year at the stated coupon rate as reflected below.

The bonds were issued by the City of Iron Mountain for the purpose of paying part of the cost of acquiring, constructing, furnishing and equipping certain capital improvement items consisting of water system improvements together with all appurtenances, attachments and related facilities.

The bonds and interest thereon are payable primarily from fees charged to customers of the water utility system. The City, however, as additional security for the payment of bond principal and interest, has pledged its full faith and credit accordingly, the bonds are said to be limited tax general obligation bonds.

CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

(Continued)

NOTE F - LONG-TERM DEBT (Continued)

The bonds maturing on or prior to March 1, 2013 shall not be subject to redemption prior to maturity. Bonds maturing on or after March 1, 2014 shall be subject to redemption prior to maturity at the option of the City, in such order as shall be determined by the City, on any one or more interest payment dates on or after March 1, 2013. Bonds of a denomination greater than \$5,000 may be partially redeemed in the amount of \$5,000 or any integral multiple thereof. If less than all of the bonds maturing in any year are to be redeemed, the bonds or portions of bonds to be redeemed shall be selected by lot. The redemption price shall be the par value of the bonds or portion of the bonds called to be redeemed plus interest to the date fixed for redemption.

NOTE G - COMPENSATED ABSENCES

Pursuant to the requirements of Financial Accounting Standards Board Statement 43, the City accrues a liability for compensated absences.

For governmental funds the liability for compensated absences is recorded in the general long-term debt account group since it is anticipated that none of the liability will be liquidated with expendable available financial resources. The liability for compensated absences is recorded in proprietary fund types (Enterprise and Internal Service Funds) as accrued liabilities in accordance with FASB Statement 43.

Specifically, the various contracts and agreements covering the City's personnel allow for the vesting and/or accumulation of sick leave as follows:

	<u>Accumulated</u>	<u>Vested</u>
Firemen	\$ 92,220	\$ -
Police	139,403	-
City Hall Office	90,799	7,425
Other City Employees	<u>172,155</u>	<u>6,232</u>
TOTALS	<u>\$ 494,577</u>	<u>\$ 13,657</u>





CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

(Continued)

NOTE H - TAX INCREMENT FINANCING AUTHORITY

Pursuant to applicable Michigan statutes the Iron Mountain City Council passed a resolution on May 20, 1985 creating a Tax Increment Financing Authority City which covers an area of approximately 1,300 acres along the highway U.S. 2 corridor from the south to the north city limits. Its purpose is to generate revenue (as discussed below) and to expend such amounts within the City for improvements to streets, curbs, sidewalks, and sewers.

The Authority's intended source of funding is property taxes levied within the City but only to the extent that such taxes are generated as a result of an increase in the total state equalized value since the established property evaluation base date of January 1, 1985. Accordingly, the Authority's first revenues received were from the July and December, 1985, tax billings.

NOTE I - WATER AND SEWER AGREEMENTS

The City has a long-term agreement with the Iron Mountain-Kingsford Joint Sewage Authority for sewage treatment. The agreement is established by ordinance (Chapter 3 Article 2) which provides for sewer rates, minimum monthly charges and a collection fee to be retained by the City for billing services provided. These rates can be adjusted periodically through ordinance amendments.

NOTE J - POST EMPLOYMENT HEALTH INSURANCE BENEFITS

In addition to providing pension benefits, the City provides health insurance benefits for its retired employees. Substantially all of its employees may become eligible for those benefits if they reach normal retirement age while working for the City. The cost of retiree's health care insurance is recognized as an expenditure as insurance premiums are paid. For fiscal 2005, the cost was \$298,222 for Police and Fire Retirees and \$375,635 for other retirees. The employees contributions amounted to \$3,975.

NOTE K - RISK MANAGEMENT

The City of Iron Mountain is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City of Iron Mountain maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE L - CONTINGENCY

The City has established a reserve for the refund of personal property tax collected on pipelines. The potential exposure to the City is estimated at \$89,000 and the case is going to the Michigan Tax Tribunal for resolution.



CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

(Continued)

NOTE M – RESERVED AND DESIGNATED FUND BALANCES AND OTHER EQUITY

The City has reserved and designated fund balances or retained earnings at June 30, 2005 as follows:

General Fund:

1. An amount equal to inventory, a nonappropriable asset.	\$ 43,376
2. Funds earmarked for a police liason officer.	18,738
3. An amount equal to delinquent property taxes receivable. These delinquent taxes, if collectible, are not expected to be substantially collected within one year.	24,119
4. An estimate of possible liability for personal property tax revenues under appeal.	<u>89,000</u>
TOTAL	<u>\$175,233</u>

Police Law Enforcement Fund:

Reserved Fund Balance - \$15,895; an amount equal to the funds total equity which must be used to purchase equipment to be used in law enforcement.

Debt Service Funds:

1991/1993 T.I.F.A. Bonds - Reserved Fund Balance - \$1,562,592; an amount to be used for future servicing of general obligation debt.

Capital Improvement Fund:

Designated Fund Balance - \$214,412; an amount equal to the fund's equity intended for future budgeted capital projects pursuant to a ten year plan.

Water Capital Improvement Fund:

Designated Fund Balance - \$514,890; an amount equal to the fund's equity intended for future budgeted water system construction projects.

Water Utility Fund:

Designated Retained Earnings - \$6,218,527; an amount retained for future operations and capital expenditures.

Sewer Fund:

Designated Retained Earnings - \$52,311; an amount retained for future operations and capital expenditures.

Motor Vehicle Fund:

Designated Retained Earnings - \$1,433,485 an amount retained for future operations and capital expenditures.



CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

(Continued)

NOTE M – RESERVED AND DESIGNATED FUND BALANCES AND OTHER EQUITY (Continued)

Cemetery Perpetual Care Trust Fund:

Reserved Fund Balance - \$452,417; non-expendable accumulated proceeds of cemetery perpetual care leases sold.

Retirees' Health Insurance Fund:

Reserved Fund Balance - \$835,834, an amount which will be used to pay retirees health insurance premiums.

Police and Firemen's Pension Trust Fund:

Reserved Fund Balance - \$7,000,605; legally restricted for payments to retirees or active participants (upon withdrawal).

Additionally, the fund balances of the Tax Increment Financing Authority, \$1,790,839; and the Downtown Development Authority, \$2,266 as presented herein are reflected as being reserved as they represent amounts which have been restricted for use in budgeted capital projects.

NOTE N – COMMITMENTS

At June 30, 2005 the City had committed to the following contracts:

Highway projects	\$1,744,821
Computer hardware, software and training	145,692
Systems control project	74,284
Water system improvement projects	467,531
Street reconstruction	<u>30,000</u>
Total commitments	<u>\$2,462,328</u>

CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

(Continued)

NOTE O – CONTINGENCIES/LITIGATION

The City is involved in five legal cases as follows:

1. A claim by a former employee for reimbursement of monies paid into the pension system;
2. A claim involving health insurance benefits for the spouse of former employee;
3. A claim involving property damage due to a sewer backup;
4. A claim by a former employee that he is entitled to be rehired and is entitled to back pay from September 1, 2004 to the date of rehire;
5. A claim by the Iron Mountain Firefighters Association alleging unfair labor practices and the entitlement of four firefighters to back pay and reinstatement.

The outcome of all of these cases was not determinable as of the date of this report.





REQUIRED
SUPPLEMENTAL

CITY OF IRON MOUNTAIN

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND

June 30, 2005

	Budgeted Amounts		Actual (Budgetary Basis) (Note A)	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES:				
General property taxes	\$ 2,905,870	\$ 2,905,870	\$ 2,897,653	\$ (8,217)
Licenses and permits	12,000	9,500	9,425	(75)
State grants	868,819	868,819	910,606	41,787
Federal grants	2,500	83,029	44,691	(38,338)
Charges for services	113,500	247,000	257,873	10,873
Local sources	34,486	34,486	35,002	516
Fines and forfeits	17,000	17,000	27,606	10,606
Interest and rents	35,000	41,000	53,163	12,163
Other	30,500	30,500	52,978	22,478
TOTAL REVENUES	4,019,675	4,237,204	4,288,997	51,793
EXPENDITURES:				
Legislative	14,600	17,600	16,791	809
General government	822,164	806,444	783,553	22,891
Public safety	2,157,550	2,297,126	2,210,066	87,060
Public works	478,570	798,480	688,699	109,781
Park and recreation	74,584	74,584	78,321	(3,737)
Other	152,980	152,980	150,870	2,110
TOTAL EXPENDITURES	3,700,448	4,147,214	3,928,300	218,914
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	319,227	89,990	360,697	270,707
OTHER FINANCING SOURCES (USES):				
Operating transfers in	189,750	189,750	91,599	(98,151)
Operating transfers out	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	189,750	189,750	91,599	(98,151)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	508,977	279,740	452,296	172,556
FUND BALANCE, JULY 1	451,541	451,541	451,541	-
FUND BALANCE, JUNE 30	\$ 960,518	\$ 731,281	\$ 903,837	\$ 172,556

The accompanying notes to the financial statements are an integral part of this statement.





**OTHER
SUPPLEMENTAL
INFORMATION**

CITY OF IRON MOUNTAIN
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

June 30, 2005

	Major Street	Local Street	Police Law Enforcement	Municipal Building
ASSETS:				
Cash and equivalents	\$ 236,390	\$ 145,914	\$ 15,895	\$ 96,351
Investments	271,900	149,327	-	-
Receivables:				
Taxes	-	-	-	-
Accounts	77,684	67,336	-	-
Interest & dividends	-	-	-	-
Prepaid expense	2,567	2,194	-	-
Due from other funds	-	4,116	-	-
TOTAL ASSETS	<u>\$ 588,541</u>	<u>\$ 368,887</u>	<u>\$ 15,895</u>	<u>\$ 96,351</u>
LIABILITIES:				
Accounts payable	\$ 11,819	\$ 8,430	\$ -	\$ -
Other accrued expenses	160	38	-	-
Accrued wages	707	169	-	-
Due to other funds	7,429	3,097	-	-
TOTAL LIABILITIES	<u>20,115</u>	<u>11,734</u>	<u>-</u>	<u>-</u>
FUND BALANCE AND OTHER CREDITS:				
Fund balances:				
Reserved	-	-	15,895	-
Unreserved				
Designated	-	-	-	-
Undesignated	568,426	357,153	-	96,351
TOTAL FUND BALANCE AND OTHER CREDITS	<u>568,426</u>	<u>357,153</u>	<u>15,895</u>	<u>96,351</u>
TOTAL LIABILITIES, FUND BALANCE AND OTHER	<u>\$ 588,541</u>	<u>\$ 368,887</u>	<u>\$ 15,895</u>	<u>\$ 96,351</u>



**ANDERSON, TACKMAN
& COMPANY, P.L.C.**
 CERTIFIED PUBLIC ACCOUNTANTS

The accompanying notes to the financial statements are an integral part of this statement.



Capital Improvement	Water Capital Improvement	Downtown Development Authority	Total Nonmajor Governmental Funds
\$ 214,896	\$ 110,743	\$ 2,654	\$ 822,843
-	398,333	-	819,560
-	-	462	462
-	-	-	145,020
-	6,057	-	6,057
-	-	-	4,761
-	-	59	4,175
<u>\$ 214,896</u>	<u>\$ 515,133</u>	<u>\$ 3,175</u>	<u>\$ 1,802,878</u>
\$ -	\$ -	\$ 909	\$ 21,158
-	-	-	198
-	-	-	876
484	243	-	11,253
<u>484</u>	<u>243</u>	<u>909</u>	<u>33,485</u>
-	-	2,266	18,161
214,412	514,890	-	729,302
-	-	-	1,021,930
<u>214,412</u>	<u>514,890</u>	<u>2,266</u>	<u>1,769,393</u>
<u>\$ 214,896</u>	<u>\$ 515,133</u>	<u>\$ 3,175</u>	<u>\$ 1,802,878</u>

CITY OF IRON MOUNTAIN

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS**

June 30, 2005

	<u>Major Street</u>	<u>Local Street</u>	<u>Police Law Enforcement</u>	<u>Municipal Building</u>
REVENUES:				
General property taxes	\$ -	\$ -	\$ -	\$ -
State grants	566,070	254,857	-	-
Charges for services	-	-	-	-
Interest and rents	10,435	6,271	259	725
Other	(57)	1,046	-	-
TOTAL REVENUES	<u>576,448</u>	<u>262,174</u>	<u>259</u>	<u>725</u>
EXPENDITURES:				
Public safety	-	-	956	-
Public works	359,032	316,378	-	-
Park and recreation	-	-	-	-
Building and grounds	-	-	-	1,659
TOTAL EXPENDITURES	<u>359,032</u>	<u>316,378</u>	<u>956</u>	<u>1,659</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>217,416</u>	<u>(54,204)</u>	<u>(697)</u>	<u>(934)</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers in	-	107,500	-	-
Operating transfers out	(117,270)	(8,879)	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(117,270)</u>	<u>98,621</u>	<u>-</u>	<u>-</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	100,146	44,417	(697)	(934)
FUND BALANCE, JULY 1	<u>468,280</u>	<u>312,736</u>	<u>16,592</u>	<u>97,285</u>
FUND BALANCE, JUNE 30	<u>\$ 568,426</u>	<u>\$ 357,153</u>	<u>\$ 15,895</u>	<u>\$ 96,351</u>



**ANDERSON, TACKMAN
& COMPANY, P.L.C.**
CERTIFIED PUBLIC ACCOUNTANTS

The accompanying notes to the financial statements are an integral part of this statement.



<u>Capital Improvement</u>	<u>Water Capital Improvement</u>	<u>Downtown Development Authority</u>	<u>Total Nonmajor Governmental Funds</u>
\$ -	\$ -	\$ 36,181	\$ 36,181
10,342	-	-	831,269
-	-	-	-
4,630	9,723	704	32,747
800	(1,500)	16,500	16,789
<u>15,772</u>	<u>8,223</u>	<u>53,385</u>	<u>916,986</u>
-	-	-	956
28,048	2,652	56,696	762,806
12,130	-	-	12,130
-	-	-	1,659
<u>40,178</u>	<u>2,652</u>	<u>56,696</u>	<u>777,551</u>
<u>(24,406)</u>	<u>5,571</u>	<u>(3,311)</u>	<u>139,435</u>
-	214,633	-	322,133
<u>(13,270)</u>	<u>(5,168)</u>	<u>(34,095)</u>	<u>(178,682)</u>
<u>(13,270)</u>	<u>209,465</u>	<u>(34,095)</u>	<u>143,451</u>
(37,676)	215,036	(37,406)	282,886
<u>252,088</u>	<u>299,854</u>	<u>39,672</u>	<u>1,486,507</u>
<u>\$ 214,412</u>	<u>\$ 514,890</u>	<u>\$ 2,266</u>	<u>\$ 1,769,393</u>

OTHER REPORTS

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Members of the City Council
City of Iron Mountain
Iron Mountain, Michigan

We have audited the financial statements of City of Iron Mountain as of and for the year ended June 30, 2005, and have issued our report thereon dated September 8, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Iron Mountain's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the City of Iron Mountain, in a separate letter dated September 8, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Iron Mountain's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



ANDERSON, TACKMAN & COMPANY, P.L.C.
Certified Public Accountants

Iron Mountain, Michigan
September 8, 2005

ANDERSON, TACKMAN
& COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS





ANDERSON, TACKMAN & COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

A Regional Firm with Offices in Michigan and Wisconsin

Principals - Iron Mountain:
L. Robert Schaut, CPA
David J. Johnson, CPA
Shane M. Ellison, CPA

Member of:
Private Companies Practice Section
American Institute of Certified
Public Accountants

September 8, 2005

Members of the City Council
City of Iron Mountain
Iron Mountain, Michigan

Dear Council Members:

We recently completed our audit of the City of Iron Mountain for the year ended June 30, 2005. Based upon our audit procedures and observations we make the following comments and recommendations:

Comment

Statement On Auditing Standards (SAS) No. 99 was first applicable for the year ended June 30, 2004. In our letter of comments and recommendations dated August 18, 2004, we commented on the applicability of SAS No. 99 and how it emphasizes the importance of implementing procedures to understand the forms of fraud, evaluating fraud risk, mitigating fraud risk, and communicating to employees the Board's views and positions relative to ethical behavior. We also provided an exhibit from SAS No. 99 that provides guidance for the implementation of antifraud programs and controls.

For the year ended June 30, 2005, we noted that no formal action relative to this matter was taken as of yet by the Board. Once again, we encourage you to do so. We have provided the SAS No. 99 Implementation Guide with this letter.

We have noted that entities have, for the most part, not followed through with formal programs as of yet. We personally feel it is because of the nature of the topic and uncertainty about just exactly how to proceed. However, SAS No. 99 is a direct result of frequent and well-publicized breakdowns as far as fraud and ethical behavior is concerned, and the need for bolstering controls in these regards is important.

September 8, 2005
City of Iron Mountain
Page Two

Comment

During our audit we interviewed a selection of employees and we solicited comments or recommendations regarding how they felt policies and procedures might be improved. Recommendations were as follows:

Petty Cash Funds

Two employees felt that control over petty cash funds could be tightened up some. More specifically, they felt responsibility for each fund, or funds, should be more clearly articulated.

Our recommendation is that the City review its risk, policy and procedures relative to all of it's petty cash funds and change them as is deemed appropriate. As always, controls need to be adequate to safeguard the City from undue financial risk. At the same time, controls need to be flexible enough to allow City employees to do their jobs efficiently.

Once again, the cooperation we received from City personnel involved in the audit was excellent. I thank you for the opportunity to provide audit services and should you have any questions please do not hesitate to contact us.

Very truly yours,

ANDERSON, TACKMAN & COMPANY, PLC



L. Robert Schaut, CPA
Senior Principal